



# Kentucky Tax Alert



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## Taxpayers Can Speed Refunds by Using Electronic Filing

Taxpayers who wish to receive their 2000 individual income tax refunds on a speedier basis should take advantage of KRC's electronic filing program.

KRC offers electronic filing in conjunction with the Internal Revenue Service (IRS).



Electronic filing offers a faster turnaround for refunds than do paper returns mailed to KRC and processed manually. Last year, electronic filers received refunds in an average of 10 to 12 days, faster than anticipated, and electronic filers can expect similar results this year.

KRC offers direct deposit of refunds into taxpayers' accounts at banks or other financial institutions. Taxpayers may have their Kentucky refunds directly deposited whether or not they have their federal refunds directly deposited. Taxpayers may also choose separate accounts for direct deposit of federal and Kentucky refunds. Direct deposit is available **only** to electronic filers.

Taxpayers who file their Kentucky returns electronically must complete and sign Form 8453-K, Individual Income Tax Declaration for Electronic Filing. Form W-2/K-2, Wage and Tax Statement, and all supporting schedules must be attached to Form 8453-K.

For the 2001 filing season, preparers had the opportunity to select the frequency with which they mail completed Forms 8453-K to KRC, by completing and returning the 8453-K Mailing Election Form. Completed Forms 8453-K may be mailed after electronic return acknowledgment is received from KRC, monthly, quarterly, or at the end of the filing season, based on this election. Preparers who did not submit an election must submit completed Forms 8453-K after electronic return acknowledgment is received from KRC. Preparers will be able to choose a different mailing frequency prior to the 2002 filing season.

Forms 8453-K and all necessary attachments should be mailed to: Kentucky Revenue Cabinet, P.O. Box 518, Frankfort, KY 40602-0518.

Balance due returns received prior to April 1, 2001, will be issued a *Statement of Liability* by KRC. Taxpayers should use the attached payment voucher to remit payment. However, taxpayers wishing to submit payment prior to receipt of the payment voucher or who file electronically after April 1, 2001, should submit payment using Form 740-V, Kentucky Electronic Payment Voucher. Payments and payment vouchers must be sent to KRC, postmarked on or before April 16, 2001, to avoid penalties and interest.

Taxpayers can obtain information on the status of their refund with KRC's Automated Refund and Tax Information System (ARTIS) by calling (502) 564-1600. ARTIS is automatically available to taxpayers who file returns electronically.

## KET Call-In Show Scheduled for April 9

KRC's annual call-in show on Kentucky Educational Television (KET) will be aired on Monday, April 9, 2001, at 10 p.m. EST.

During this show, KRC staff members answer questions from the public about individual income tax issues for the 2000 tax year. Tax information and filing tips are also presented during the show, as are messages from KRC Secretary Mike Haydon and Taxpayer Ombudsman Betty Claycomb.

For more information, consult local TV listings or KET's Web site at <http://www.ket.org>.



## Good Friday Office Closure

Pursuant to KRS 18A.190, all KRC offices will be closed the afternoon of Friday, April 13, 2001, in observance of Good Friday.

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## KRC Offers Individual Income Tax Filing Assistance

KRC offers numerous opportunities for taxpayers to receive assistance in filing 2000 individual income tax returns. Following are sources of assistance.

### In Frankfort

Assistance is available at KRC's central office at 200 Fair Oaks Lane, Frankfort, off Wilkinson Boulevard, until 4:30 p.m. EST.

Beginning Monday, April 2, 2001, and continuing until Monday, April 16, 2001, assistance will be available in person or by telephone each weekday evening until 6 p.m. EDT, with the exception of Friday, April 13, 2001. All KRC offices will close at noon in observance of Good Friday.

Telephone assistance may be obtained by calling (502) 564-4581.

### At Taxpayer Service Centers

Assistance is available at any of KRC's 11 taxpayer service centers (TSCs) located throughout Kentucky, until 4:30 p.m. local time.

On the filing deadline day of Monday, April 16, 2001, assistance will be available in person or by telephone at each TSC until 6 p.m. local time. At the Corbin and Northern Kentucky TSCs, employees of the Internal Revenue Service (IRS) will be on hand to assist taxpayers with completion of their federal returns each Tuesday until April 10, 2001, and again on April 16, 2001. IRS personnel will be at Corbin during normal business hours, and at Northern Kentucky from 9:30 a.m. to 3 p.m. local time.

Also on April 16, 2001, KRC and the IRS will have employees on hand at the post offices in Hopkinsville, Lexington, and Louisville from 4 p.m. until 10 p.m. local time to assist taxpayers in completing federal and state returns.

KRC employees will be on hand in IRS offices in Louisville and Lexington on Saturday, April 14, 2001, from 8:30 a.m. until 2:30 p.m. EDT to assist taxpayers in completing their state returns.

Addresses and phone numbers of Kentucky's 11 TSCs are:

#### Ashland, 41105-0687

P.O. Box 687  
134 16th Street  
Telephone: (606) 920-2037  
Fax: (606) 920-2039

#### Bowling Green, 42101-2040

P.O. Box 2040  
1502 Westen Street  
Telephone: (270) 746-7470  
Fax: (270) 746-7847

#### Corbin, 40702-3298

P.O. Box 1298  
Falls Road Plaza, Suite 5  
1707 18th Street  
Telephone: (606) 528-3322  
Fax: (606) 523-1972

#### Hazard, 41702-4194

P.O. Box 419  
233 Birch Street  
Telephone: (606) 435-6017  
Fax: (606) 435-6018

#### Hopkinsville, 42241-0695

P.O. Box 695  
181 Hammond Drive



Telephone: (270) 889-6521  
Fax: (270) 889-6563

#### Lexington, 40507-1556

301 East Main Street  
Suite 500  
Telephone: (859) 246-2165  
Fax: (859) 246-2164

#### Louisville, 40202-2446

620 South Third Street  
Suite 102  
Telephone: (502) 595-4512  
Fax: (502) 595-4205

#### Northern Kentucky

Turfway Ridge Office Park  
7310 Turfway Road, Suite 190  
Florence, KY 41042  
Telephone: (859) 371-9049  
Fax: (859) 371-9154

#### Owensboro, 42302-0128

P.O. Box 128  
401 Frederica Street, Building C, Suite 201  
Telephone: (270) 687-7301  
Fax: (270) 687-7244

#### Paducah, 42002-2336

P.O. Box 2336  
555 Jefferson Street, Suite 306  
Telephone: (270) 575-7148  
Fax: (270) 575-7027

#### Pikeville, 41501

Uniplex Center  
126 Trivette Drive, Suite 203  
Telephone: (606) 433-7675  
Fax: (606) 433-7679



## Tax Refund Information Available by Phone

Information on Kentucky individual income tax refunds is available 24 hours per day through KRC's Automated Refund and Tax Information System (ARTIS). Call (502) 564-1600 from a touch-tone telephone to verify KRC's receipt of the return or when the refund was mailed.

To use ARTIS, taxpayers must know the Social Security number listed first on the return, and the exact whole-dollar amount of the refund.

Acknowledgment of receipt of a return is available for taxpayers using both labels provided by KRC on their tax form packets or on postcards. Labels are provided for the envelope and the tax return.

For taxpayers not using both labels, acknowledgment is not available until the return is processed. These taxpayers should wait eight weeks after mailing their return before calling ARTIS.

Callers who do not receive a refund mailing date from ARTIS should allow seven days before calling again.

ARTIS is automatically available to all taxpayers filing their individual income tax returns electronically.



## Guidelines for Requesting Extensions to File 2000 Kentucky Individual Income Tax Returns

Taxpayers may obtain an extension of time within which to file their Kentucky income tax returns by filing an Application for Extension of Time to File, Form 40A102. KRC also accepts a federal extension. If tax is due, attach a check made payable to the Kentucky State Treasurer to either Form 40A102 or a copy of the federal extension and mail by April 16, 2001. (A copy of the application for federal extension should not be mailed to KRC on April 16, 2001, unless tax is due.) When the Kentucky individual income tax return is filed, a copy of Form 40A102, the automatic federal extension, or



approved federal extension must be attached to the Kentucky individual income tax return in order for a taxpayer to avoid a late filing penalty.

Because an extension of time to file a return does not extend the time to pay a tax liability, interest will accrue on the tax liability unpaid as of April 16, 2001, until paid. In addition to interest, KRC will assess a late payment penalty. If a taxpayer can demonstrate that the delay in filing the return or remitting the payment is due to reasonable cause, penalties—but not interest—may be reduced or waived.

Individual income tax filers are also reminded that the first quarterly estimated payment for taxable year 2001 is due April 16, 2001.

## Common Errors on Individual Income Tax Returns

Following is a list of the most common errors which appeared on 1999 Kentucky individual income tax returns and continue to appear on 2000 returns. If errors are avoided, processing time is minimized and refunds, if due, are received more quickly.

- ✍ **Wrong Standard Deduction Taken**—Many taxpayers are not taking the 2000 standard deduction of \$1,700, but instead continue to use last year's deduction of \$1,500.
- ✍ **Labels Used Improperly**—Taxpayers should use the preprinted labels received with their tax forms or on postcards. Taxpayers should also make sure they place the labels in the proper locations. One label is intended for the return itself; the other should be used on the envelope in which the return is mailed to KRC.  
  
Taxpayers should verify the information printed on the labels. If the address is incorrect, mark through it and write in the correct address. If the name or taxpayer identification number is incorrect, do not use the label.  
  
Preparers should ensure that the correct label is attached to the proper return.  
  
Use of preprinted labels does not increase the chances for an audit. Instead, it speeds processing and the mailing of any refund due the taxpayer.
- ✍ **Low Income Credit**—Taxpayers are using the Kentucky taxable income instead of the Kentucky adjusted gross income (AGI) as the basis for computing the low income credit. For married couples, the low income credit is based on the combined Kentucky AGI. Many taxpayers fail to take advantage of this credit when entitled to it.
- ✍ **Child and Dependent Care Credit**—The Kentucky child and dependent care credit is 20 percent of the federal child care credit, not the child care expense.
- ✍ **Underestimated Tax Penalty and Use of Form 2210-K**—Preparers should calculate any underestimated tax penalties for their clients and instruct them to pay the penalty when returns are filed. The minimum penalty is \$25. Underestimated tax

penalties must be reported on Form 2210-K, which should be attached to Form 740. If Form 2210-K is attached, the appropriate box on Form 740 must be checked.

- ✍ **Withholding Statements not Attached**—Taxpayers should attach wage or other withholding statements to their returns. Be sure to attach Kentucky copies of the wage and tax statements. Local statements which do not list Kentucky withholding are being sent in error. Staple the statements to the top page *only* of the return.
- ✍ **Withholding Amounts Reported in Error**—Withholding amounts reported on tax returns should match the amounts reported on withholding statements.
- ✍ **Returns not Signed**—Taxpayers should be sure to sign their returns. Unsigned returns are sent back to taxpayers, causing delays in processing and payment of refunds which may be due.
- ✍ **Copies of Federal Returns not Attached**—When applicable, taxpayers must attach copies of federal returns and schedules. Make sure that the original Kentucky form is sent to KRC and the original federal return with schedules is sent to the Internal Revenue Service. KRC is receiving original federal returns instead of copies.
- ✍ **Wrong Envelope Used**—Taxpayers should use the blue envelope for refund returns and the yellow envelope for pay returns.
- ✍ **Tax Tables**—Taxpayers should recheck the tax table to ensure the correct line was used for their taxable income and number of tax credits claimed, and the correct amount of tax was entered in the proper place on the return.
- ✍ **Incorrect Mathematical Calculations**—Taxpayers should review their calculations to ensure the totals are correct.

For assistance in completing your Kentucky individual income tax return, contact the Individual Income Tax Assistance Section, (502) 564-4581, or any of KRC's 11 taxpayer service centers.

## Court Case Updates

**Motor Vehicle Usage Tax**—On Jan. 3, 2001, in *McGaren v. Revenue Cabinet*, 99-CI-01392, the Jefferson Circuit Court ruled that provisions of the motor vehicle usage tax law treating purchases of used motor vehicles outside Kentucky differently from purchases of used vehicles in Kentucky violated the United States Constitution's Commerce Clause. The specific provisions held to be invalid were those denying, in the case of out-of-state vehicle purchases, an exclusion from the taxable retail price for the value of any vehicle given in trade for the vehicle purchased. The circuit court's Jan. 3, 2001, order directs the Commonwealth of Kentucky to grant the trade-in allowance for all purchases of used motor vehicles when another used vehicle is traded in as part of the same transaction, regardless of whether the purchase in question takes place in Kentucky or in another state.

Although the Jan. 3, 2001, order is final and being complied with by KRC and county clerks, other issues remain to be resolved in the case. These issues include whether this action should be certified as a class action and the application of statutory deadlines governing the filing of refund claims.

Under the Jefferson Circuit Court's ruling, a taxpayer who has purchased a used motor vehicle outside the Commonwealth of Kentucky and as part of that transaction traded in a vehicle previously registered in Kentucky, may be entitled to a refund of all or a portion of the motor vehicle usage tax he or she paid with respect to the vehicle purchased. A protective refund claim should be submitted to KRC. A protective refund claim form is available in all 120 county clerks' offices, or may be downloaded from KRC's website at <http://www.state.ky.us/agencies/revenue>.

**Sales and Use Tax**—The Kentucky Supreme Court has denied KRC's petition for rehearing in *Camera Center, Inc. d/b/a Murphy's Camera v. Revenue Cabinet*, 99-SC-00283. That case is therefore final.

In *Smithkline Beecham Corporation v. Revenue Cabinet*, 1998-CA-002415 MR, at issue was the application of the use tax to a pharmaceutical company's storage in this state of free drug samples and its distribution of those samples to physicians and veterinarians who in turn were to provide the samples without charge to their patients or to owners of animals being treated by them. Both the Kentucky Board of Tax Appeals (KBTA) and Franklin Circuit Court had upheld KRC's assessment of use tax for the company's storage and distribution of these free drug samples. In an opinion rendered on Jan. 19, 2001 (*To Be Published*), the Kentucky Court of Appeals reversed the KBTA and circuit court. The Court of Appeals agreed with KRC that the pharmaceutical company's storage and distribution of the samples were properly subject to use tax pursuant to KRS 139.310, the distribution of the samples clearly being embraced by the statutory definition of taxable "use" and the company's storage of the samples considered by the court with "little difficulty" to be within the legislative definition of taxable "storage" in KRS 139.150(1).

The Court of Appeals nevertheless ruled that the assessment must be set aside because the exemption provided for in KRS 139.472 for prescription drugs applied. The court rejected KRC's argument that the drugs must be actually dispensed by a pharmacist in order for this exemption to apply. Instead, the court reasoned the "[t]he medication is exempt if it is a medicine that is commonly recognized as one which is prescribed for the treatment of a human being and commonly recognized as one that would be dispensed by a registered pharmacist in accordance with law. It is the nature of the medicine, not the manner in which it is actually dispensed, that qualifies it as a prescription medicine."

KRC has petitioned the Court of Appeals for a rehearing. Therefore, this decision is not final.

To provide courteous, accurate  
and efficient services for the benefit of  
Kentucky and its citizens, and admin-  
ister the tax laws of the Common-  
wealth in a fair and impartial manner.

Kentucky Revenue Cabinet  
Mission Statement

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REVENUE CABINET  
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